

THE FUTURE OF INNOVATION TRACKING

A CASE STUDY OF INNOVATION ON DEMAND

JANUARY 2019

INTRODUCTION

Amid a flurry of technological advancements, the world of consumer research can seem like a big data maze, full of disparate sources and a matrix of ways to access, cleanse and interpret information. As the concept of big data gets bigger, the natural response for many is to invest in expertise and infrastructure to mine that data. Often, however, these efforts to mine and manage data affect one's agility and reactivity to market demands. We strive to free the data flow, democratize it in ways that enable you to focus on what matters. Our mission is to enable you to make sense of the sheer volume of inbound information.

Innovation is an area where mining data can be a particularly painstaking—and resource consuming—task. Without the proper infrastructure to monitor competitive activity, maintaining a comprehensive read of what's new in consumer goods becomes an expensive and manual endeavor.



THERE'S AN EASIER PATH TO REAL TIME, ROBUST AND RELEVANT INFORMATION

Nielsen Innovation Measurement represents the future of innovation tracking. It also speaks to a broader shift that's become necessary for our industry and central to our company strategy— positioning data as an enterprise asset in addition to your products, your people, and your supply chain or stores, in order to succeed in today's environment. Nielsen Innovation Measurement is a cloud-based solution that enables you to shift from manual or disparate data collection efforts, to a unified and user-friendly asset maintained via machine learning.

This is an exciting time for our industry—advanced technology presents an opportunity to reconsider the utility of the data at your disposal, whether it's your own data, data from third-party suppliers, retail data and more. In this tech-driven market, you can't afford not to count data among your core assets. But the good news is that it's now easier than ever to invest in and receive data in its most usable form. When it comes to having a useful, holistic, end-to-end data strategy, seek data that enables you and your teams to focus on what matters—and realize the cost savings of replacing efforts to acquire, cleanse, maintain, secure and permission access to disparate sources of information. Be open to the reality where you spend less time mining data in siloed environments and more time activating best-in-class data assets curated on-demand. When it comes to innovation, this Connected System app is that reality.

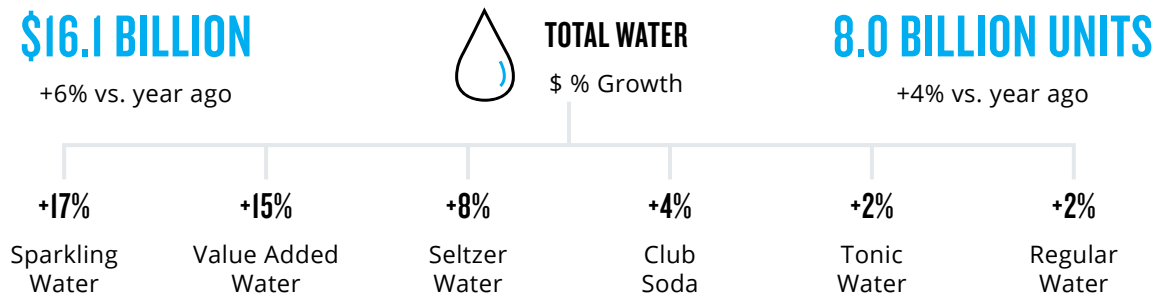
OVERVIEW

A clear read of competitive innovation activity enables marketers to adapt and respond to new market dynamics. A sound understanding of innovation performance can give you a leg up when it comes to adopting new trends before they scale. In expandable categories, innovation can also help to better predict the future competitive landscape, and align your business to where fast-growing categories are poised for growth. Doing so with an eye to real-time reads on new entrants to the market is how you can navigate your path forward, while accounting for blindspots that emerge along the way.

The water category is a perfect example of where we've seen rapid expansion in both innovation and sales already take hold. Water plays a starring role in many Americans' quests for improved health. In a recent study, 77% of surveyed Americans indicated that trying to drink more water is among the primary ways they actively manage their health and lifestyle.¹ This contributed to an impressive 6% increase in water sales over the past year, pushing total sales to more than \$16.1 billion. This hits well above the 2.4% growth experienced by beverages overall, led by strong demand for both sparkling and value-added waters.

TOTAL WATER PERFORMANCE

Growth bolstered by sparkling and value-added water



Source: Nielsen Retail Measurement Services, Total Food View, Total U.S. xAOC including convenience stores, 52 weeks ended Sept. 29, 2018

While the impressive sales performance of water points to heightened demand, measurement of innovation performance has and continues to serve as a predictor of future growth. How has innovation contributed to the category's growth thus far? In what direction is the category headed? Which new items have contributed to the positive bottom line in water this year? Knowing how much of this has been inspired by successful innovations brought to scale can add invaluable context and help you predict outcomes in 2019 and beyond.

¹ Source: Nielsen survey of 1,163 respondents, surveyed in April 2017

PREDICTING INNOVATION OPPORTUNITIES

By consistently identifying and classifying new product innovations on a granular level, you have a wealth of context for where to look next for growth opportunities. For example, in 2017, innovation performance among sparkling and value-added water foreshadowed the water category's impressive growth in 2018.

With an innovation algorithm that continuously identifies and classifies new innovations, seamless app-based analytics that aggregate innovation metrics, and detailed reference data, we can see which genres of new items are hitting (and turning) the market. In 2017, sparkling water was the top innovation characteristic, representing 65% of new items to the category, followed by water items with "calorie free" claims. In both cases, we see alignment with what eventually manifested in the category's overall performance—fizzy and calorie-conscious enhanced waters ultimately driving category sales.

TOP INNOVATION CHARACTERISTICS IN WATER

Innovation is driven by sparkling water, 'no calorie' claims and canned waters

Characteristic	Share of Innovation Items
Level of Carbonation: Sparkling	65%
Calorie Claim: No Calories	42%
Packaging: Can	24%

Source: Nielsen Innovation Measurement, Profiler, Total U.S. xAOC including convenience stores, 52 weeks ended Oct. 8, 2017

Even at an item level, measurement of innovation performance can offer perspective into what direction a category is headed. When ranked based on units sold, a majority of the top innovation items were large-format non-carbonated waters. Given the ubiquitous nature of water among consumers, it shouldn't be too surprising that non-carbonated waters have a strong presence in the category. What's more telling, is the influence of private label in this space.

Compared to beverages as a whole, where store brands represent about 11% of dollar sales, water is unique in that store brands generate more than 25% of category sales.² In fact, when ranked based on units sold, private labels represented half of the top 10 water innovations last year. The strong performance of private label items, particularly non-carbonated SKUs, was yet another indicator of performance to come in 2018.

TOP WATER INNOVATIONS BY UNITS SOLD

Private Labels represent 5 of the top 10 selling innovations in water this year

Item	Innovation Type
Nestle Pure Life Non Carbonated Bottle 16.9 Foz x40	Line Extension
Lifewtr Non Carbonated Bottle 33.8 Foz x1	New Brand / Line Extension
Non Carbonated Private Label Jerry 128 Foz x1	New Brand / Line Extension
Lifewtr Non Carbonated Bottle 23.7 Foz x1	New Brand / Line Extension
Culligan Non Carbonated Bottle 128 Foz x1	Line Extension
Non Carbonated Private Label Bottle 16.9 Foz x24	Line Extension
Non Carbonated Private Label Bottle 128 Foz x1	Line Extension
Sparkling Ice Carbonated Raspberry and Grape Bottle 17 Foz x1	Line Extension
Carbonated Private Label Black Raspberry Bottle 17 Foz x1	Line Extension
Non Carbonated Private Label Bottle 16.9 Foz x45	Line Extension

Source: Nielsen Innovation Measurement, Profiler, Total U.S. xAOC including convenience stores, 52 weeks ended Oct. 8, 2017

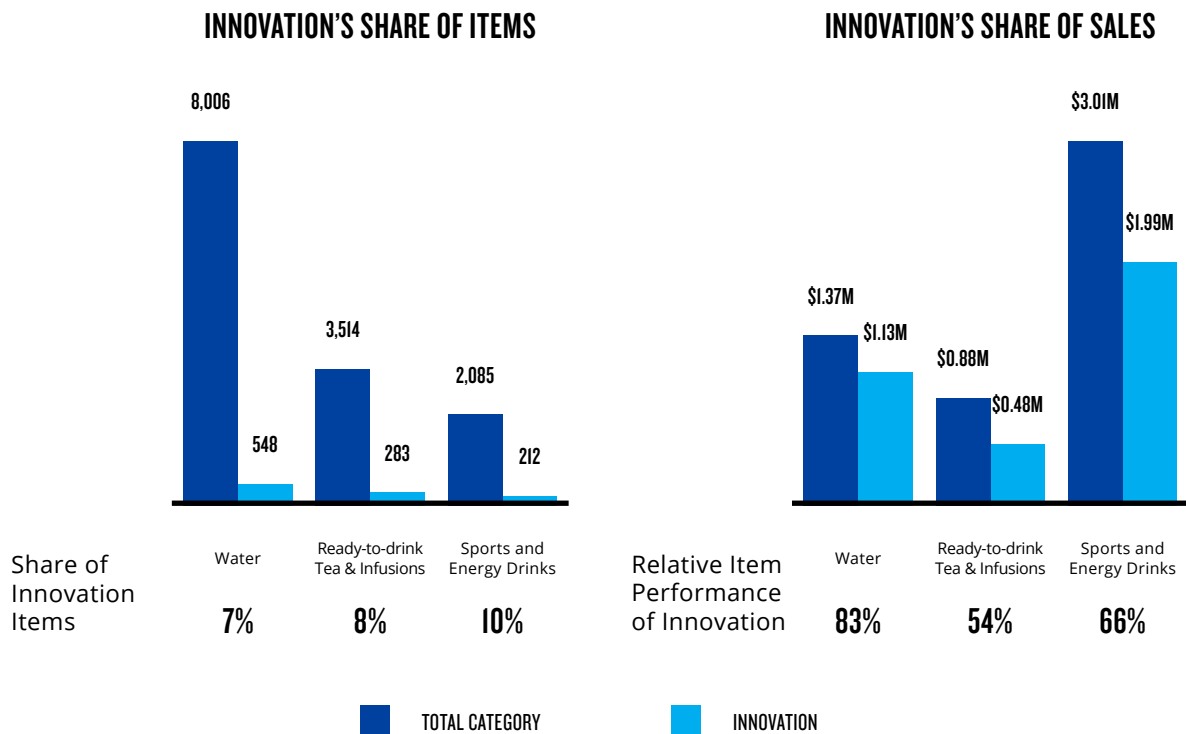
²Nielsen Retail Measurement Services, Total Food View, Total U.S. xAOC including convenience stores, 52 weeks ended Sept. 29, 2018

INNOVATION EFFECTIVENESS: ACTIVATE AGAINST SALES

Innovation is often pointed to as a source for growth in emerging categories, but tracking and measuring its exhaustive impact was historically a tedious and difficult undertaking. Today, you can measure the collective impact of innovations by you and your competitors in real time, with a few simple clicks.

BEVERAGE INNOVATION PERFORMANCE

Despite lower share of items, water innovations reap high returns relative to tea and isotonic beverages



Source: Nielsen Innovation Measurement, Profiler, Total U.S. xAOC including convenience stores, 52 weeks ended Oct. 8, 2017

In the case of water, innovation continues to drive growth. New items to the water category represented 6% of sales in 2017, which is 1.4 percentage points above its contributions in 2016. Compared with other beverages, this falls in the middle of the road relative to 4% of sales contributed by ready-to-drink tea and infusions, and 7% of sales contributed by sports and energy drinks. By looking at the effectiveness of the individual item, we can truly hone in on the growth story that's taken place in water.

In 2017, there were approximately 548 new items to the water category. While this represents just 7% of category items, the average new water item is exceptionally effective, earning 83% of what we could expect of existing items on the market. Comparatively, the performance gap between innovation and existing items is much wider across other beverage categories. Where the average sports and energy drink item brings in \$3 million annually, innovations in this space have brought just 66% of this return, averaging \$2 million per item, per year. The same holds true across the ready-to-drink tea and infusions category, where innovations earn just 54% of what could be expected of a pre-existing item on shelves this year.

Collectively, water has exhibited a win through quality over quantity in innovation throughout 2017. Where the overall number of innovations falls within the realms of expectation, these items have outperformed relative to average item revenue across other beverage innovations. When it comes to water, new items on the market appear to be earning their keep.

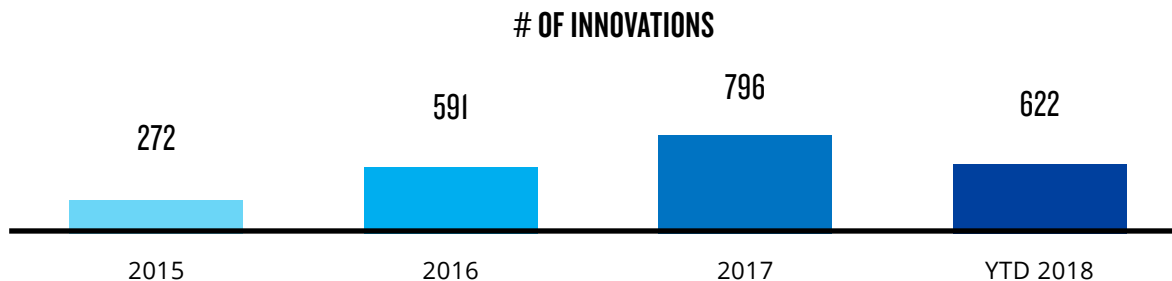
BUILD A CONTINUOUS INNOVATION SCORECARD

The final step to evolving the measurement of innovation performance involves ongoing monitoring. In other words, keeping a pulse on your competitive landscape with a real-time read of when new items enter stores, to hedge against the competition.

For water, the trajectory for innovation has grown exponentially. The shelf set has been completely transformed and today, water aisles are on track to outpace the last three years in terms of new items released. Comparing 2015 to 2017, we saw nearly 3X the number of new water items hit shelves. In the last quarter alone, there have been at least 192 items launched between July and September 2018.

WATER INNOVATION ACTIVITY

Swift upward trajectory in water innovation year-over-year



Source: Nielsen Innovation Measurement, Activity, Total U.S., 52 weeks ended Sept. 22, 2018

At a total category level, it's perhaps not surprising that the vast majority of innovation in the water category has revolved around line extensions. Eighty-one percent of new water items this year have involved not new brands or sub-brands, but new items of different flavors, varieties, sizes, forms or package changes. Of the line extensions we've seen within water this year, 267 (35% of new items) were a new product variety, 225 (30% of new items) were a result of either a new pack size or a new product size offering and 174 (23% of new items) were the result of a new combination of existing product attributes from a manufacturer. When it comes to relative dollar performance, line extensions represent 82% of water innovation sales. It's safe to say the change taking place in water, isn't driven by new competitive entrants, but rather, new items issued by existing brands.

WATER CATEGORY – % BY TYPE OF INNOVATION

Majority of innovation in water category is limited to line extensions

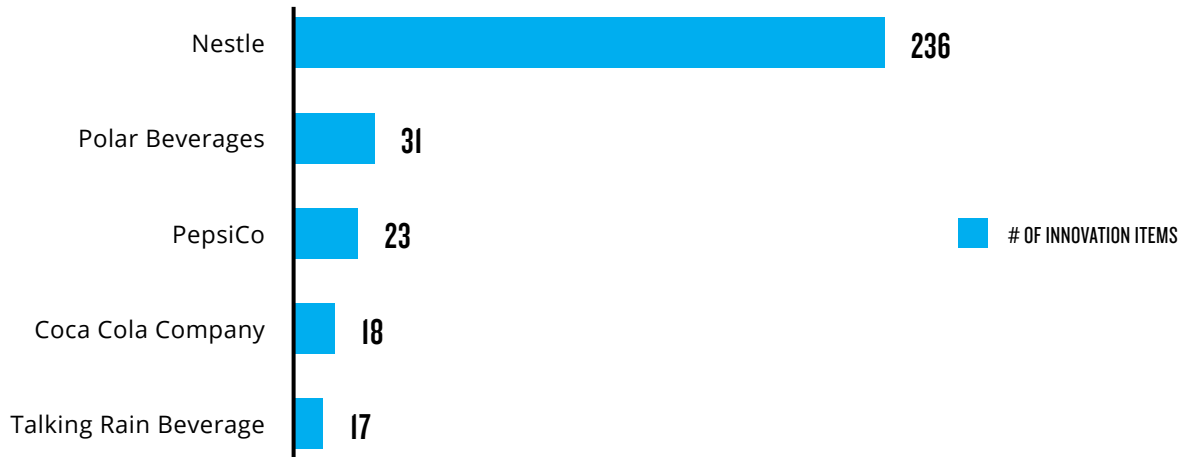
10%	New Brand / Brand Extension A new brand is introduced to the county (US) for the first time OR a brand that exists in other categories (in the US) is introduced to this category for the first time
5%	New Sub-brand A brand creates a subsidiary or secondary brand in the same category
81%	Line Extension A brand / sub-brand introduces a new item in the same category (e.g., new flavor, variety, size, form, or packaging)
4%	Special Collection Items temporary or seasonal in nature (e.g., limited time 'World Cup' branded packaging for an existing brand)

Source: Nielsen Innovation Measurement, Profiler, Total U.S. xAOC including convenience stores, 52 weeks ended Sept. 16, 2018

Nestlé is by and far the industry leader in water innovations, leading the category with 236 new items in the last year. But when compared to contribution to sales, the manufacturer landscape takes a different shape when it comes to the most effective innovators in this space.

MOST ACTIVE WATER MANUFACTURERS

Nestle is by and far the leader in water innovation activity this year



Source: Nielsen Innovation Measurement, Activity, Total U.S., 52 weeks ended Sept. 22, 2018

Looking at innovation items' contribution to sales paints an eye-opening picture of the manufacturer landscape. Here, you can see that PepsiCo has outperformed from an innovation standpoint this year. While PepsiCo represents just under 4% of new water items, these have driven more than their fair share of sales. As a result, PepsiCo's share of innovation sales is 113% higher than what we'd expect given their dollar share of the water category. Polar Beverages, Talking Rain Beverage and Dr. Pepper Snapple Group are among others who have seen high sales contributed by new water items. In these cases, innovation measurement is a true asset as it enables you to drill further and understand factors driving the demand for these new items in particular.



THE EASE OF DIGESTING THESE INSIGHTS CAN POWER YOUR ABILITY TO FOCUS YOUR PORTFOLIO ON ITEMS THAT ARE MOST EFFECTIVE

On the other side of the spectrum, the ease of digesting these insights can power your ability to focus your portfolio on items that are most effective. National Beverage is a great example of a manufacturer that appears to be taking a measured approach to innovation. The company has represented 2.4% of new water items this year, which translated into dollar contributions 4% higher than what we'd expect given their dollar share of the water category. National Beverage is still driving change in this category, but is doing so in a way that might avoid flooding the market with slow-moving SKUs.

TOP WATER MANUFACTURERS – INNOVATION EFFECTIVENESS

Despite launching fewer new items, PepsiCo has seen outsized return on water innovations

Water Manufacturer	Innovation vs. Category \$ Share Index
Private Label	128
Nestle	54
Coca Cola Company	41
PepsiCo	213
National Beverage	104
Fiji Water	2
Talking Rain Beverage	169
Dr. Pepper Snapple Group	167
Crystal Geysler Water Company	32
Polar Beverages	194

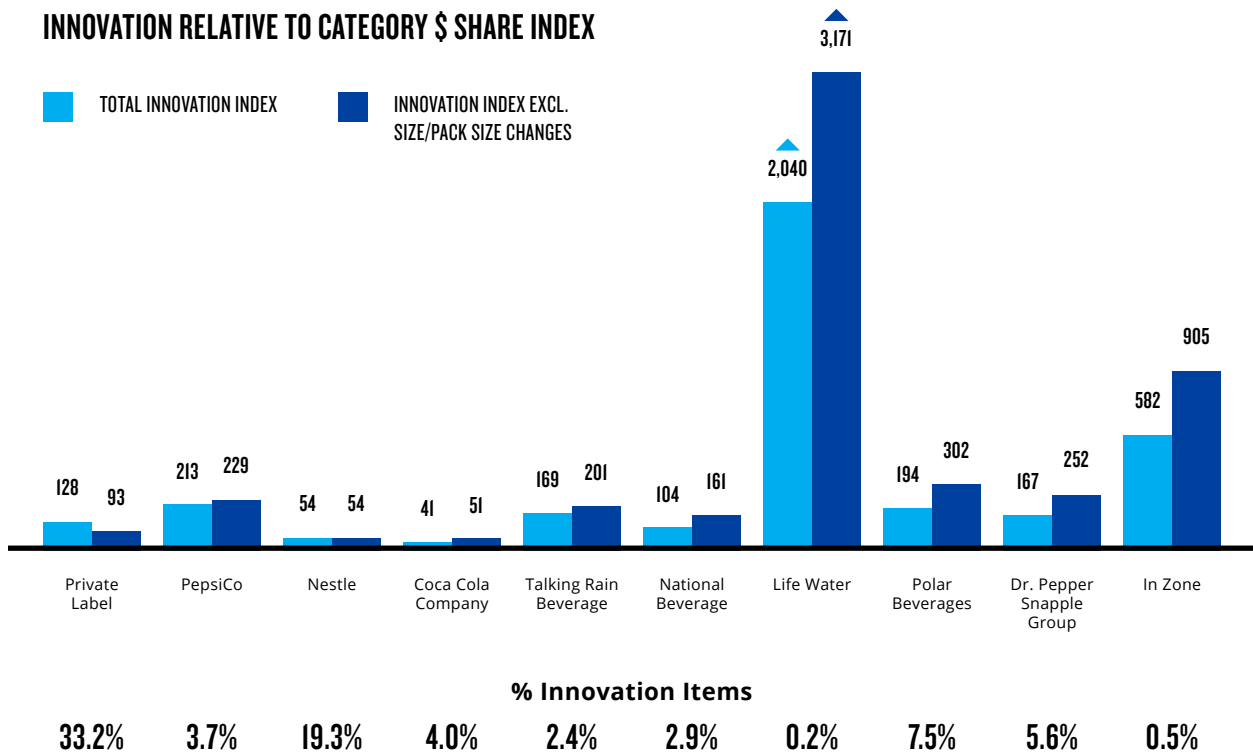
Index read as: sales of Private Label water innovations are 28% higher than we'd expect relative to Private Label's \$ share of the overall water category. Meanwhile, sales of Nestle water innovations are 46% LESS than expected relative to Nestle's \$ share of the water category.

Source: Nielsen Innovation Measurement, Profiler, Total U.S. xAOC including convenience stores, 52 weeks ended Sept. 16, 2018

Interestingly, when we isolate for size and pack size line extensions, we see some interesting distinctions emerge in the water manufacturer landscape. For one thing, the impact of private label is less pronounced indicating that the new items driving innovation share of sales for retail branded waters are largely size-oriented. Looking at other leading manufacturers, we see who rises as top innovators in this space. Life Water and In Zone have been incredibly effective in scaling sales and reach for the few items they have introduced this year. While, Polar Beverages, Dr. Pepper Snapple Group and PepsiCo are among those who have seen a larger number of innovations beyond size changes, they have also seen outsized return on investment from these items. Clearly, when it comes to innovation, there's fundamental changes abound and change isn't limited to size and pack size alterations.

TOP INNOVATORS IN WATER – ISOLATING FOR SIZE & PACK SIZE CHANGES

Looking beyond size-related innovation, many are seeing outsized impact from innovation



Index read as: sales of Private Label water innovations are 28% higher than we'd expect relative to Private Label's \$ share of the overall water category. Meanwhile, sales of Private Label water innovations, EXCLUDING size or pack size line extensions, are 7% LESS than expected relative to Private Label's \$ share of the water category.

Source: Nielsen Innovation Measurement, Profiler, Total U.S. xAOC including convenience stores, 52 weeks ended Sept. 16, 2018

MINDFULLY MANAGE YOUR INNOVATION

The fast-moving consumer goods (FMCG) industry continues to be underpinned by the expansion of choice, a phenomenon that's inherently tied to innovation. As new products emerge, they risk overcrowding already crowded shelf sets, and so, the need to mindfully manage innovation efforts is essential.



NIELSEN'S INNOVATION MEASUREMENT REPRESENTS A NEW CLASS OF SCALABLE, AUTOMATED AND ACCESSIBLE DATA ASSETS

Success in innovation has been centered around measured approaches to new item introduction. Too many have gone to market with new products without a clear picture of the competitive landscape. Others spend millions on maintaining manual and often incomplete perspectives on new category dynamics. Nielsen's Innovation Measurement represents a new class of scalable, automated and accessible data assets required to power informed decisions on new products. We've seen in the water category how past innovation performance foreshadowed the playing field of today, where water items hold huge potential. Beyond predicting directional shifts in performance, intelligence on current innovation activity offers essential understanding of how dynamic the current pace of innovation is for water.



ABOUT NIELSEN

Nielsen Holdings plc (NYSE: NLSN) is a global measurement and data analytics company that provides the most complete and trusted view available of consumers and markets worldwide. Our approach marries proprietary Nielsen data with other data sources to help clients around the world understand what's happening now, what's happening next, and how to best act on this knowledge. For more than 90 years Nielsen has provided data and analytics based on scientific rigor and innovation, continually developing new ways to answer the most important questions facing the media, advertising, retail and fast-moving consumer goods industries. An S&P 500 company, Nielsen has operations in over 100 countries, covering more than 90% of the world's population. For more information, visit www.nielsen.com.



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